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Increased Intergovernmental Cooperation Needed For More Effective, Less Costly Auditing Of Government Programs B-176544

General Services Administration

**UNITED STATES
GENERAL ACCOUNTING OFFICE**

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-176544

The Honorable Arthur F. Sampson
Administrator of General Services 17

Dear Mr. Sampson:

This is our report on the need for increased intergovernmental cooperation to achieve more effective, less costly auditing of Government programs.

We have discussed the findings in this report with your management officials and agree with the corrective action already in process. We plan to keep informed of progress made by the Administration and the various departments and agencies in their efforts to make greater use of State and local audits.

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We are sending copies of this report today to the Chairmen of the House and Senate Committees on Government Operations; Chairman of the Subcommittee on Intergovernmental Relations, House Committee on Government Operations; heads and audit directors of major Federal departments and agencies; and State auditors. 10/15/60

Sincerely yours,

DL Scantlebury

D. L. Scantlebury
Director

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ABBREVIATIONS

EPA Environmental Protection Agency

GAO General Accounting Office

GSA General Services Administration

HEW Department of Health, Education, and Welfare

HUD Department of Housing and Urban Development

OEO Office of Economic Opportunity

OMB Office of Management and Budget

D I G E S T

WHY THE REVIEW WAS MADE

Legislators and executives at all levels of government have increasingly indicated they want reliable information on:

- How funds are spent on governmental programs.
- Whether applicable laws and regulations are complied with.
- Whether funds are economically employed.
- Whether objectives are achieved.

Government managers are basically responsible for reporting this type of information to the legislators and to the public.

The independent auditor also has a vital role in this reporting. He examines the reports and operations of program administrators and gives his opinion on the soundness of their reports and his conclusions and recommendations on where improvements can be made.

Federal use of special-purpose grants to State and local governments and ~~revenue sharing~~ has caused Federal, State, and local governments to become more interested in audits of the same entities.

Each government level has often audited whatever facets of a grant

or program it is interested in without concern for the interest of other levels of government. Such auditing is expensive and is disruptive to grantee or program personnel.

GAO made this review to determine the extent that Federal and State auditors coordinate their audits so that they can use each other's work to meet each other's requirements.

FINDINGS AND CONCLUSIONS

GAO notes several instances where Federal agencies were able to use State audits to satisfy their requirements and thus reduce their own audit efforts. Such successful cases of coordinated audits required cooperative planning that considered appropriate audit scopes and time periods. For the most part, however, benefits from coordinating Federal and State audits have been far short of what is attainable. (See p. 11.)

Even though they have substantial backlogs of audit work, most Federal auditors said they generally do not rely on State or local government audits because of the Federal Government's differing legal requirements, interests, audit guidelines, and reporting methods.

For example, the Department of Housing and Urban Development reported that, in 74 cases when State audits included Department funds, its auditors were not able to reduce

their work in 51 cases because the State audits did not satisfy the Department's requirements.

State auditors believe that more standardization of Federal audit interests and requirements, such as that required by the Office of Management and Budget Circular A-102, will make it feasible for more State audits to respond to Federal needs.

According to Federal audit officials, they were not able to make greater use of other auditors' work because:

- Formal procedures for coordinating audit plans of State and Federal auditors were lacking. (See p. 16.)
- The scope of many Federal and non-Federal audits were too limited to meet the needs of other levels of government. (See p. 16.)

Specific actions are underway to help auditors at various levels of government improve their audits so that their work will better satisfy the needs of other levels of government. (See p. 20.)

- The Civil Service Commission, the Department of Commerce's Inter-agency Auditor Training Center, other Federal agencies, public interest groups, and professional associations have established training programs in broad-scope auditing which are available to State and local auditors.
- Federal agencies have worked out cross-servicing arrangements over the last few years whereby a single agency conducts the audit for all agencies at a single institution. Similar arrangements were made for auditing indirect costs under grant programs for certain States and counties.

--GAO has compiled a statement containing language used in prior legislation to require evaluation of program accomplishments. It has distributed this to the Congress and OMB to encourage use of specific goals in legislation and regulations. Specific program goals are needed for more auditors-- at Federal and State levels--to evaluate the program results.

--GAO has started issuing a series of case studies indicating how skills of such professionals as automatic data processing specialists, statisticians, systems analysts, and actuaries can be used in audits of Government programs and activities. These skills are often required during both Federal and State audits of Government programs.

--An intergovernmental audit forum, with representatives from Federal agencies and selected State and local governments, has been organized to work out intergovernmental audit problems.

Ambitious and extensive as the efforts have been to improve intergovernmental auditing, much remains to be done in (1) standardizing audit requirements of the various Federal departments and agencies, (2) developing a systematic means of evaluating and accepting each other's audit work that will include planning and communicating audit activities and capabilities, and (3) increasing the emphasis on audit cooperation among the various levels of government in addition to the present emphasis on audit cooperation among Federal agencies.

To cooperatively respond to Federal needs for auditing work, State and local auditors indicated that they

would need more audit staff having a broader range of skills and more training. They stated that Federal procedures do not result in adequate reimbursement to States for audit work performed to satisfy Federal requirements. GAO is studying further the Federal procedures to determine why there are problems in this area and what needs to be done to improve procedures for reimbursing States for audits they make to satisfy Federal requirements.

All in all, attaining effective intergovernmental coordination of auditing is a long-term effort.

RECOMMENDATIONS OR SUGGESTIONS

GAO proposed that the General Services Administration take more positive steps to promote the use of State and local audits to satisfy Federal audit requirements.

AGENCY ACTIONS

In a July 2, 1973, letter, the General Services Administration concurred with our view that much work

lies ahead in improving audit operations and advised GAO that it strongly endorses initiatives for improved intergovernmental auditing and is prepared to contribute to that effort to the maximum extent possible. (See app. III.)

The Administrator revised Office of Management and Budget Circular A-73 to provide for increased intergovernmental audit coordination. These new provisions emphasize continued coordination among Federal agencies and require each agency to rely on State and local audits made in accordance with GAO audit standards.

GAO is encouraged by these new provisions to improve coordination of audits. Success or failure will largely depend on the Administrator's vigorous leadership. The Administrator requires each agency to periodically report its progress toward full compliance with the new requirements. GAO plans to keep informed on the progress made to increase intergovernmental coordination among audit organizations.

CHAPTER 1

INTRODUCTION

About \$40 billion annually is provided by 20 executive agencies to State and local governments for more than 1,300 programs in which the Federal Government has an interest, such as welfare, highway construction, housing, education, manpower training, health, agriculture, and environmental protection. These programs are carried out by 50 States, 3,000 counties, and nearly 90,000 local governments.

Legislators and executives at the Federal, State, and local levels of government have increasingly indicated that they want reliable information on how these funds were spent and what objectives were achieved. Program managers are basically responsible for reporting this information to the legislatures and to the public. The auditor also has a vital role in this reporting. He examines the reports and operations of program administrators, and gives his opinion on the soundness of their reports and his conclusions and recommendations where improvements are needed.

Many persons think of an audit solely as an examination of financial transactions so that the auditor can provide an independent opinion on their integrity and the fairness of the related financial statements. This interpretation of auditing arises largely from the business world where much of the auditing done is to express an opinion on the fairness of profit determinations and other financial matters. Profit is the recognized standard of accomplishment in business, and businesses generally strive to earn adequate amounts. Therefore, financial results are considered a reasonable demonstration of effectiveness. Governments, on the other hand, have little to do with profitmaking. Government programs are varied but generally deal with promoting citizen safety, health, and general welfare. An audit of financial statements is only one part of the audit work needed to evaluate the performance of a particular Government organization or activity.

Legislators, Government administrators, and the public that pays for governmental activities want answers to such questions as:

- Are funds properly safeguarded and applicable laws and regulations followed?
- Are public funds being used for good and needed purposes?
- Is money being spent efficiently and economically?
- Are objectives being accomplished?

Governmental auditors have done creditable work in identifying poor practices in (1) procurement; (2) supply management; (3) safeguarding of property, including cash; and (4) a host of related problems. Corrective actions on problems auditors reported have significantly improved Government operations.

FEDERAL AUDIT RESPONSIBILITY

The Congress has recognized the Federal Government's need for effective auditing in a number of laws, including the Budget and Accounting Procedures Act of 1950. Federal audit responsibility is carried out by:

- GAO--an independent agency in the Legislative Branch--is essentially authorized to audit all Federal programs and reports to the Congress.
- The executive agencies' audit organizations, which report to department or agency heads or to principal officials having direct access to the department or agency heads.

Federal audits are carried out at the departments and agencies and at organizations with which the Government has contractual relationships. Such organizations are engaged in a variety of activities in support of Federal or federally assisted programs, and include (1) private concerns, (2) educational institutions, (3) health care institutions, and (4) other units of State and local governments.

Section 113 of the Budget and Accounting Procedures Act of 1950 made top management within each agency responsible for its auditing by providing that:

* * * the head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide * * * effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit * * *."

The Government Activities Subcommittee, House Committee on Government Operations, has taken a strong and active interest in the internal audit function and has urged all agencies to adopt effective internal audit systems.

STATE AND LOCAL AUDIT RESPONSIBILITY

States' legal provisions for designating the individuals responsible for postaudits are far from uniform. They include public election and appointment by legislatures, Governors, or executive department officials or boards.

Responsibility for audit oversight of the various political subdivisions' program administration also varies widely among the States. Some States give the postauditor explicit responsibility to conduct and/or to supervise audits at all political subdivisions. Usually however, a State postauditor is restricted from auditing certain political subdivisions. Many political subdivisions have their own auditors, such as county or city auditors, and many have independent public accountants audit governmental programs.

FEDERAL POLICY TO COORDINATE OVERLAPPING RESPONSIBILITIES

Because the various organizations share the responsibilities for auditing governmental programs, duplicate audit effort and the accompanying waste of time and money and interruption of the work of program personnel occur unless auditors coordinate their work.

After the Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, disclosed a series of widespread deficiencies in auditing federally assisted programs, the Bureau of the Budget (now Office of Management and Budget (OMB)), issued Circular A-73 in 1965 to encourage intergovernmental audit coordination and to

set forth Federal policies to be followed in auditing Federal grants in aid to State and local governments. The Circular provided that:

1. Federal agencies conducting grant programs establish audit policies for guiding their internal or independent auditors. Agencies were required to review individual grant programs to determine coverage, frequency, and priority of audit for each program.
2. Agencies' audit policies require them to rely, to the maximum extent feasible, on internal or independent audits made at State and local levels and use as appropriate the principles of statistical sampling.
3. Each Federal agency make available--on request from another Federal agency--the results and findings of previous audits that identified the adequacy of a grantee's system of financial management and control and such other information that would assist in establishing audit requirements and audit scope.
4. Audit of all grant programs administered under the jurisdiction of a single Federal department be coordinated when related authorities and responsibilities are delegated to constituent organizations.
5. Each grantor agency give full consideration to establishing cross-servicing arrangements under which one Federal agency would conduct audits for another--when such arrangements are in the best interests of the Federal Government and the grantee.
6. Federal agencies responsible for auditing grant operations foster close cooperation and coordination among auditors of respective jurisdictions. Continuous liaison, including the exchange of audit standards and objectives, is to be maintained among Federal, State, and local audit groups involved.
7. Maximum use be made of audits by the grantee's internal or independent auditors, to avoid unnecessary duplication by Federal auditors.

STANDARDS FOR INTERGOVERNMENTAL AUDITS

In 1970, assisted by OMB and selected Federal agencies, we undertook a project to develop audit standards to apply to audits of all Government organizations, programs, activities, and functions--whether performed by auditors employed by Federal, State, or local governments; independent public accountants; or others qualified to do parts of the audit work contemplated under the standards. The standards were also to apply to internal audits and to audits by or for a governmental entity of contractors, grantees, and other external organizations.

A principal objective of the standards was to stimulate State and local governments to improve the character and quality of auditing and to evaluate federally assisted programs so that the Federal Government could better rely on State and local auditing to satisfy Federal requirements. This approach was intended to strengthen State and local governments and to reduce the workload of the Federal Government.

Federal, State, and local audit organizations; representatives of professional societies of auditors and accountants, public interest groups; and interested university professors reviewed the standards developed. In 1972 the Comptroller General issued a booklet entitled "Standards for Audit of Governmental Organizations, Programs, Activities & Functions." (App. I includes the standards, exclusive of explanatory comment.)

SCOPE OF REVIEW

Our review assessed Federal and State government progress in coordinating audits and identifies problems being encountered and actions needed.

We obtained information through questionnaires to and interviews with audit officials in the following 15 States and 10 Federal agencies:

States

Federal agencies

Alaska	Department of Agriculture
Connecticut	Department of Commerce
Idaho	Department of Health, Education, and Welfare (HEW)
Iowa	
Kansas	Department of Housing and Urban De- velopment (HUD)
Maine	
Massachusetts	Department of the Interior
Missouri	Department of Justice
Nebraska	Department of Labor
New Hampshire	Department of Transportation
New York	Office of Economic Opportunity (OEO)
Oregon	Environmental Protection Agency (EPA)
Rhode Island	
Vermont	
Washington	

CHAPTER 2

AUDIT COORDINATION NEEDS SUBSTANTIAL IMPROVEMENT

Reliance on and use of each other's audit work is necessary for an audit to satisfy both the common and discrete accountability interests of each contributing government. Federal, State, and local governments coordination of activities in auditing programs of common interest with a minimum of duplication is of mutual benefit to all concerned and is a practical method of auditing intergovernmental operations.

Properly planned and coordinated audits can often satisfy the mutual interests of individual governments for many of these programs. Our audit standards clarify the requirements for such audits, and by so doing provide a basis for one audit group to rely on and use the work of another audit group.

COORDINATION NOT WIDESPREAD

For the most part audit coordination falls far short of what is attainable; 7 of the 10 Federal audit agencies reviewed have not relied on State and local government audits to any significant extent. Three Federal agencies (HEW, HUD, and OEO) relied to varying degrees on audits of their grantees by public accountants or State auditors. The public accountant's audits were generally limited to financial and compliance coverage and the arrangements made with State auditors provided for training or supervision by the Federal agency.

Federal audit officials said one reason they cannot rely on State audits is that the State auditors normally do not adequately consider Federal legal requirements, interests, audit guidelines, and reporting methods.

For example, in a study of 74 cases where earlier audits by State or local government auditors included examining stewardship of HUD funds, it was able to reduce its own audit work in only 23 cases because the remaining 51 audits did not satisfy its requirements.

State auditors reported it was not usually economically feasible to satisfy Federal audit interests and guidelines in a State audit because these Federal requirements were not adequately standardized. This is especially important for agencies administering Federal grant-in-aid programs through State and local governments and which are subject to OMB Circular A-102, attachment G.¹ State auditors believe that, if aggressively implemented, OMB Circular A-102--which standardizes many Federal administrative procedures and requirements, including audit--will make it feasible for more State audits to satisfy Federal audit interests and guidelines.

Audit time can be wasted and organizations being audited can be substantially disrupted when government levels fail to properly coordinate their audits. For example, we found a Department of Agriculture and two State agency teams audited the same State agency program area at the same time, using 8 to 10 auditors within 6 to 8 months. Coordinated scheduling of such audits could have divided the work among audit groups, selected a common time period to be audited, and made better use of each other's work. This would save the time of both auditors and departmental employees and officials they must consult.

Effective coordination, including reliance on and use of audit work done by others, can assist Federal agencies in reducing large backlogs of audit work. At the time of our review, four major grantor agencies (Labor, EPA, HEW, and HUD), had backlogs estimated at 856 man-years for auditing grants to State and local governments and other grantees. This estimate is based on the agencies' criteria for the type of audit and the audit cycle. A Labor official said emphasis had been on fiscal and compliance audits; therefore, the entire area of economy and efficiency and of program results auditing could also be considered a backlog. The agencies plan to reduce their backlogs by (1) using State and local audits, (2) engaging independent public accountants, (3) lengthening the audit cycle, and (4) relying more on statistical sampling.

¹Attachment G provides uniform standards for financial management systems of grant-supported activities of State and local governments.

WHEN USED, COORDINATION HAS WORKED

When Federal, State, or local audits were coordinated and performed in a manner that met the basic requirements and audit practices contemplated by the standards (see app. I), other interested audit agencies accepted and relied on the work. Some Federal agencies have relied on State auditors' work, but the practice is not widespread. The following paragraphs show examples of successful coordination of audits by Federal agencies and the States of New York and Washington.

The audit agency in the Office of the New York State Comptroller has coordinated its work with that of Federal auditors, made Federal and State audits, and provided audit reports that Agriculture and HEW relied on. Agriculture and HEW and New York officials knew of each other's (1) competency, (2) report requirements, (3) audit scope and objectives, and (4) planning processes. According to an HEW audit official, his organization sometimes puts its cover letter on audit reports that New York auditors prepare. Federal officials require corrective action, thus extending the State auditors' effectiveness.

In the State of Washington, an informal coordinating organization planned for a coordinated audit with auditors from HEW. The coordinated audit took place because these Federal and State auditors evaluated each other's competency and relied on each other's work.

The HEW Audit Agency, assisted by the Washington State Auditor, performed a demonstration project to determine the feasibility of coordinating their audits to avoid duplication and yet satisfy the needs of both and to develop guidance material for future efforts. The objectives of this project included (1) determining the benefits achievable by coordinated audits, (2) evaluating the practicality of such audits, and (3) identifying coordination problems.

To accomplish the project's objectives, common programs which would offer experience in different types of audits were selected. The Washington State auditor audited three federally assisted programs involving both complex and standard assignments and assumed final responsibility for the audits and reports on these three programs for both HEW and State interests.

As a result of the project, the Washington State auditor extended the approach to the audit of two other HEW federally assisted programs. He was able to perform these audits with more comprehensive audits of university activities. This work required a relatively small increase in his staff audit time and required only nominal time for HEW to review, evaluate, accept, and report.

The additional State or local audit time required to satisfy Federal needs varies in each instance, depending on the scope of the work. State auditors believe that Federal agencies should recognize that additional time is required to make State audits satisfy Federal requirements and that some method is needed to compensate the performing audit agency for that effort. We are studying the subject of Federal reimbursements for State audits as a separate project.

HEW, in evaluating the demonstration project, concluded that such coordinated audits were practical and could effectively contribute to improved auditing as follows:

1. Audit time can be reduced and money saved by identifying areas where Federal and State auditors have the same objectives.
2. The number of auditors needed and the overall audit time required can be reduced.
3. More audits can be made.
4. The State audit will be improved because of broader scope auditing.
5. An effective communication system can be established to disseminate information.
6. Background data and guidance material can be provided to more audit groups.
7. A system can be established to provide for the interchange of ideas.

The demonstration project also identified potential problems. HEW concluded that:

1. Close coordination is needed.

2. Audit objectives and standards must be clearly defined.
3. Both audit groups must be independent.
4. The intended use of the final report must be made clear.
5. Evaluation of audit group capabilities, an extremely sensitive area, must be handled very carefully to insure good relations.

Comments received during our study indicate that early consideration of many of the above requirements during audit planning can substantially contribute toward more successful audit coordination.

CHAPTER 3

REASONS FOR LACK OF COORDINATION

We asked several Federal and State officials why they were not making greater use of each other's work to satisfy their needs. Reasons most often given by these audit officials were:

- No formal procedures existed for coordinating plans.
- Many audits, both Federal and non-Federal, were based on dissimilar audit objectives and thus had different reporting requirements about (1) what funds were spent on and what was accomplished with them, (2) whether program administrators followed applicable laws and regulations, and (3) whether the money was used economically.

LACK OF PROCEDURES TO COORDINATE AUDITS

Federal and non-Federal audit organizations have not developed a systematic means of evaluating and accepting each other's audits, even though both report backlogs of work, not enough staff, and strict budget ceilings. Each audit organization tends to do the work it considers necessary without regard for information beyond its own needs and often without regard to what other auditors have already done. Not knowing the capabilities of other audit organizations, they hesitate to accept other organizations' work. Also, by not coordinating audit plans, they often miss the opportunity to make an audit serve the needs of several levels of government. What is missing is an environment of mutual trust and cooperation and a procedure for assessing the capabilities of various audit organizations and for coordinating their efforts.

LIMITED AUDIT SCOPES

To satisfy management's needs for information, Government audits must be broad in scope. Although the scope of each audit should be tailored to meet the needs of the users, the following three audit aspects should be considered during planning.

Financial and compliance--an examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.

Efficiency and economy--a review of efficiency and economy in using resources.

Program results--a review to determine whether objectives are being achieved.

There was a wide range in the type of audits that Federal audit agencies emphasized, including those independent public accountants made. For example, Agriculture reported using 60 percent of its resources for efficiency and economy and program results reviews. Labor reported it had concentrated on financial and compliance audits. Independent public accountants' audits of grantees primarily emphasized financial aspects.

Audit officials from Agriculture, Labor, Law Enforcement Assistance Administration, and OEO reported that they had used an average of 27 percent of their staffs for economy and efficiency and program results reviews but would like to devote an average of 64 percent for these reviews.

It appears that the scope of an audit can vary because of the type of grant-in-aid program being audited. Most of HEW's audits of formula grants, which generally go to State or State-level grantees, were more comprehensive, and audits of project grants, which generally go to grantees below the State level, were usually confined to financial and compliance reviews.

A majority of the State audit agencies did not review compliance with Federal laws and regulations or make audits that considered efficiency and economy or that evaluated program results. Those that made efficiency and economy and program results reviews committed only 5 to 25 percent of available resources to such audits. State auditors reported they would devote considerably more resources to such audits if they had adequate staff and legal authority. From responses to an inquiry on how they have applied audit

resources in the past and how they would apply them in the future if they were to cover all audit areas, we obtained the following information:

	Percent of resources	
	<u>Past</u>	<u>Future</u>
Financial and compliance	89	56
Efficiency and economy	8	23
Program results	<u>3</u>	<u>21</u>
	<u>100</u>	<u>100</u>

Efficiency and economy and program results have not been emphasized. Both Federal and State auditors told us that, to expand the scope of their audits, they needed solutions to several problems. In addition to aggressive implementation of OMB Circular A-102 (see p. 12), specific problems mentioned were:

1. The need for additional staff.
 - a. Only 25 percent of the responding State auditors reported they had adequate funds and staff to expand the scope of their audits. Many State auditors reported that tight budgets made it difficult to obtain any fund increase for their organizations. One State legislature authorized funds for 13 new audit staff positions, but the governor refused to release the funds. According to 12 State Auditors, legal requirements to make financial audits generally took all their available resources. Several State auditors reported they were from 2 to 5 years behind on financial and compliance audits.
 - b. Both Federal and State auditors anticipated a need for expertise in disciplines other than accounting.

2. Need for specific program objectives.

To audit program results, the auditor must consider the relevance and validity of the criteria used by the audited entity to measure achievement of program results. Evaluating program results in accordance with these requirements requires increased emphasis on the establishment of specific program objectives.

In an August 11, 1972, letter the Comptroller General transmitted to the Congress a summary of the increasing number of instances in which legislation provides for evaluating program effectiveness. (See app. II.) Although there is an increasing congressional interest in providing specific program objectives in legislation, more emphasis on this area is needed.

3. The need for additional staff training.

Both State and Federal audit managers reported that making broad-scope audits as prescribed in the standards for audits of government programs was inhibited by the need for staff training. State auditors believed that, to perform more efficiency and economy and program results reviews, they would need additional staff training or experience.

CHAPTER 4

ACTIONS BEING TAKEN TO IMPROVE

GOVERNMENT PROGRAM AUDITING

Specific actions are underway to help auditors at the various levels of government to improve their audits so that work performed will better satisfy their needs.

1. The Civil Service Commission, the Department of Commerce's Interagency Auditor Training Center, other Federal agencies, public interest groups, and professional associations have established training programs in broad-scope auditing which are available to State and local auditors. Efforts are underway to give more State and local auditors the opportunity to participate in these training programs. Professional associations and Federal agencies have made other efforts to interest colleges and universities in instituting courses in broad-scope auditing.
2. GSA has revised OMB Circular A-73 to deal more specifically with many coordination problems. Federal Management Circular 73-2 was issued in September 1973.
3. Federal agencies have worked out cross-servicing arrangements over the last few years whereby a single agency conducts the audit for all agencies at a single institution. Similar arrangements were made for auditing indirect costs under grant programs for certain States and counties.
4. OMB Circular A-102 promulgates standards for consistency in administering grants to State and local governments. It is expected that Federal use of the uniform standards for financial management systems of grant-supported activities will make it feasible for more State audits to satisfy Federal audit interests and guidelines. The Director, Office of Financial Management, Office of Federal Management Policy, GSA, closely monitors the implementation of Circular A-102. Agencies are required to submit periodic reports describing their progress

in implementing the circular, and these progress reports are widely distributed to interested parties.

5. We are studying the problems of making funds available to State and local governments to enable them to perform audits that will meet the Federal Government's needs.
6. Our audit standards provide for using staff other than accountants, when needed. For instance, audits vary in purpose and scope--some require an opinion on financial statements and an evaluation of compliance with specific laws and other requirements, others require reviews of efficiency and economy or effectiveness in achieving program results, still others require some or all of these three elements of audit work. Performing all three elements of audit work, in some cases, requires a wide variety of skills. The need for diverse skills may require cooperative audit by different organizations whose personnel collectively have the required capabilities. We have started issuing a series of case studies indicating how such professionals as systems analysts, actuaries, automatic data processing specialists, and statisticians can be used to help audit government programs and activities.
7. With the cooperation of agencies from Federal, State and local governments, we have organized a National Intergovernmental Audit Forum to improve audit coordination. The Comptroller General of the United States invited the initial group of Federal agencies (primarily those with large grant programs) to participate in the Forum. The Council of State Governments and the Municipal Finance Officers Association assisted the Comptroller General in identifying six State and six local representatives to participate in the Forum. The Federal representatives were appointed by the heads of their respective agencies. The Forum is to serve as a mechanism for exchanging ideas of auditors from different agencies and different levels of government on such problem areas as duplication of effort by auditors

at various government levels, inflexible audit requirements, impractical time requirements for audit work, and a host of similar matters.

The Forum's charter, officially adopted in July 1973, contains the following statement of objectives.

"--To unite audit executives from each level of government for mutually beneficial endeavors.

"--To promote the acceptance, interpretation, and implementations of the audit standards issued in August 1972 by the Comptroller General.

"--To coordinate and standardize common audit activities to the maximum extent practicable.

"--To develop satisfactory solutions to mutual audit problems.

"--To promote the kind of understanding and communication that will result in cooperative audit work and mutual reliance on audits performed by others."

8. In 1972 the American Institute of Certified Public Accountants organized a Committee on Relations with GAO. This Committee is to represent the public accounting profession's viewpoint on matters of mutual concern and interest and is to advise the senior technical committees and members of the Institute on significant developments relating to our activities. As one of its first activities, this new AICPA committee was to prepare a report on our audit standards to help independent public accountants understand the standards, their effect on auditing practice today, their relationship to AICPA's "generally accepted auditing standards," and their application to the broader scope of auditing required for government programs. The Committee's report released in November 1973, stated:

"The members of this Committee agree with the philosophy and objectives advocated

by the GAO in its standards and believe that the GAO's broadened definition of auditing is a logical and worthwhile continuation of the evolution and growth of of the auditing discipline."

We believe this Committee's efforts can increase the effectiveness with which the independent public accountant can broaden the scope of his audit and thereby contribute toward improved coordination of auditing of government programs.

CHAPTER 5

CONCLUSIONS AND AGENCY ACTIONS

CONCLUSIONS

Ambitious and extensive as the efforts are to improve intergovernmental audit coordination, much remains to be done. The training of staff will be a long and arduous task. Much also remains to be done to standardize Federal audit requirements and to provide State and local governments with the resources to perform audits that will consider these requirements.

All in all, securing effective coordinated auditing is a long-term effort. To improve cooperation, we proposed that GSA take more positive steps to promote the use of State and local audits to satisfy Federal audit requirements and revise OMB Circular A-73 to include the procedures that will increase intergovernmental audit coordination.

AGENCY ACTIONS

GSA concurred with our view that much work lies ahead in improving audit operations, strongly endorsed initiatives for improved coordinated auditing, and is prepared to contribute to that effort to the maximum extent possible. GSA comments on matters discussed in this report are included as appendix III and have been incorporated in this report. GSA has certain reservations about including too many detailed procedures in its Federal Management Circular describing the intergovernmental audit cooperation program. It has, however, expanded the coverage the earlier OMB Circular A-73 provided and added reporting requirements designed to achieve more aggressive implementation by the agencies. It also added the following provisions, which we believe will help improve audit operations (see app. IV for entire revised Federal Management Circular 73-2):

"6. Policies and procedures

"* * * The audit standards will be the basic criteria on which audit coverage and operations are based. Agencies administering Federal grant, contract, and loan

programs will encourage the appropriate application of these standards by non-Federal audit staffs involved in the audit of organizations administering Federal programs."

* * * * *

"c. Cross-servicing arrangements

"* * * Under such circumstances, it will be the primary responsibility of the Federal agency with the predominant financial interest to take the initiative in collaborating with the other appropriate Federal agencies to determine the feasibility of one of the agencies' conducting audits for the others, and to work out mutually agreeable arrangements for carrying out the required audits on the most efficient basis.

"d. Reliance on non-Federal audits

"In developing audit plans, Federal agencies administering programs in partnership with organizations outside of the Federal Government will consider whether these organizations require periodic audits and whether the organizations have made or arranged for these audits. * * * Federal agencies will coordinate their audit requirements and approaches with these organizations to the maximum extent possible. The scope of individual Federal audits will give full recognition to the non-Federal audit effort. Reports prepared by non-Federal auditors will be used in lieu of Federal audits if the reports and supporting workpapers are available for review by the Federal agencies, if testing by Federal agencies indicates

the audits are performed in accordance with generally accepted auditing standards (including the audit standards issued by the Comptroller General), and if the audits otherwise meet the requirements of the Federal agencies."

* * * * *

"f. Coordination of audit work

"Federal agencies will coordinate and cooperate with each other in developing and carrying out their individual audit plans. Such actions will include continuous liaison; the exchange of audit techniques, objectives, and plans; and the development of audit schedules to minimize the amount of audit effort required. Federal agencies will encourage similar coordination and cooperation among Federal and non-Federal audit staffs where there is a common interest in the programs subject to audit."

* * * * *

"8. Reporting requirement

Each Federal agency will submit a report to the General Services Administration (AM), Washington, DC 20405, by December 31, 1973, on the action it has taken to implement the policies set forth in this circular. Specifically, the report will include actions taken on the issuance of policies, plans, and procedures for the guidance of its auditors; determination of audit priorities; new cross-servicing arrangements made; additional reliance on non-Federal audits; development of audit plans; and coordination of audit work between Federal agencies and between Federal and non-Federal audit staffs.

Reports will be submitted at 6-month intervals on the additional actions taken until the circular is fully implemented. Copies of agency issuances on the implementation of this circular will be submitted to the Office of Federal Management Policy, General Services Administration, upon request."

We are encouraged by these new provisions to improve intergovernmental coordination of audits, particularly the followup system whereby each Federal department and agency is to submit periodic progress reports to GSA.

The success of these new requirements will depend upon cooperation of the various Federal agency auditors and their State and local counterparts as well as upon aggressive leadership by GSA. GAO will follow closely the attempts to solve this problem and will assist in promoting the type of cooperation needed to minimize duplication and inefficiency in governmental auditing work.

STANDARDS FOR AUDIT OF GOVERNMENTAL ORGANIZATIONS,
PROGRAMS, ACTIVITIES & FUNCTIONS

The standards prescribed for the broader responsibility assumed by those performing audits of government programs are as follows:

GENERAL STANDARDS

1. The full scope of an audit of a governmental program, function, activity, or organization should encompass:
 - a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
 - b. A review of efficiency and economy in the use of resources.
 - c. A review to determine whether desired results are effectively achieved.

In determining the scope for a particular audit, responsible officials should give consideration to the needs of the potential users of the results of that audit.

2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
3. In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.
4. Due professional care is to be used in conducting the audit and in preparing related reports.

EXAMINATION AND EVALUATION STANDARDS

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.

APPENDIX I

3. A review is to be made of compliance with legal and regulatory requirements.
4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with laws and regulations, and to provide for efficient and effective operations.
5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

REPORTING STANDARDS

1. Written audit reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits. Copies of the reports should be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others responsible or authorized to receive such reports. Copies should also be made available for public inspection.
2. Reports are to be issued on or before the dates specified by law, regulation, or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management and by legislative officials.
3. Each report shall:
 - a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
 - b. Present factual matter accurately, completely, and fairly.
 - c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
 - d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness.

Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.

- e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes or of problems reported should be included to assist in implementing or devising corrective actions.
- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
- g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
- h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.
- j. Clearly explain the scope and objectives of the audit.
- k. State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.

APPENDIX I

4. Each audit report containing financial reports shall:
 - a. Contain an expression of the auditor's opinion on whether the information contained in the financial reports is presented fairly. If the auditor cannot express an opinion, the reasons therefore should be stated in the audit report.
 - b. State whether the financial reports have been prepared in accordance with generally accepted or prescribed accounting principles applicable to the organization, program, function, or activity audited and on a consistent basis from one period to the next. Material changes in accounting policies and procedures and their effect on the financial reports are to be explained in the audit report.
 - c. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, shall be explained in the audit report.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-161740

August 11, 1972

Dear Mr. Chairman:

I have been pleased to note the increasing number of instances where the Congress, in the enactment of legislation has made specific provision for evaluating the effectiveness or results of programs provided for in the legislation. Members of our staff have prepared summary of these provisions covering the past five years. This is enclosed for your information.

In carrying out its statutory responsibilities and in providing assistance to the Congress and its committees, this Office is increasingly concerned not only with questions of fiscal integrity and the economy and efficiency with which programs are managed, but also whether programs are achieving the results intended by the authorizing legislation. Assessment of program results is important in determining whether the program should be redirected and whether alternatives might achieve better results or the same results at less cost.

The Congress recognized the need for program assessment in enacting the Legislative Reorganization Act of 1970. Section 204 of this Act directs the Comptroller General to review and analyze the results of Government programs and activities carried out under existing law, including the making of cost benefit studies, when requested by either House of Congress, on his own initiative, or at the request of any committee or joint committee of Congress. Additionally, the provision directed the Comptroller General to assist the committees of Congress in analyzing cost benefit studies furnished by Federal agencies to the Congress.

Also, as you know, section 136 of the Legislative Reorganization Act of 1946, as amended in 1970, directs standing committees of the House and Senate to review on a continuing basis, the application, administration, and execution of those laws, or parts of laws, within its jurisdiction in order to assist the House and Senate in "(1) its analysis, appraisal, and evaluation of the application, administration,

APPENDIX II

B-161740

and execution of the laws enacted by the Congress, and (2) its formulation, consideration, and enactment of such modifications or changes in those laws, and of such additional legislation as may be necessary or appropriate."

In carrying out both section 136 of the 1946 Act and section 204 of the 1970 Act, I urge that the Congress give careful consideration in authorizing new programs, or in reauthorizing existing programs, to including in the authorizing legislation specific statutory requirements for a systematic evaluation by the department or agency involved of the results of programs in operation. In line with this thought, I am directing our staff, in developing comments on draft bills and pending legislation submitted to this Office for review, to suggest, wherever appropriate, language which we believe could most usefully accomplish this objective. In addition, we would be glad to work with the committees and the committee staffs in developing suitable language tailored to meet specific cases.

I hope that the Office of Management and Budget will take the lead in working with the agencies in developing similar suggestions when legislation is submitted to the Congress by the Executive Branch. I am making such a suggestion to the Director, Office of Management and Budget, along with a copy of this letter.

Prerequisites for program evaluation are clarity and specificity in stating program objectives. Unfortunately, in many programs, the legislative process does not develop a clear statement of program goals or objectives nor does the subsequent administrative process develop goals of the necessary clarity. Differences between the Congress and the executive regarding the program may, in some instances, confuse rather than clarify program objectives. We recognize the difficulty of clearly and specifically setting forth program goals and objectives either by legislative or administrative action but believe that we should all keep this in mind as programs are established or modified.

It is our view that program evaluation is a fundamental part of effective program administration. The responsibility, therefore, should rest initially upon the responsible agencies.

In line with this concept, we believe that the Congress should attempt to specify the kinds of information and tests which will enable it and the Comptroller General to better assess how well programs are working and whether alternative approaches may offer greater promise. Too frequently, in our opinion, the Congress requests periodic reports from agencies without adequate consideration as to whether these reports will contain the information needed by it to discharge its oversight and legislative responsibilities.

I should like to emphasize one further point. Based on our observations to date, we question whether a legislative requirement that a fixed percentage of program funds or a fixed dollar amount to be spent for program evaluation is wise, particularly where the agency may not be in a position to spend the money effectively. Rigid personnel regulations imposed by the executive branch can be a contributing factor; scarcity of trained personnel has undoubtedly been another factor. I have requested our staff, in the conduct of audits, to give particular attention to this problem and to include in our advice to the Congress our appraisal as to how well the agencies are performing their evaluation functions. We will give special attention to this in those cases where Congress has enacted explicit requirements for program evaluation.

I would be happy to have your thoughts on this suggestion and also any views as to how our Office can be of greater help to the Congress.

Best wishes.

Sincerely yours,

/s/ Elmer B. Staats

Comptroller General
of the United States

Enclosure

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405



JUL 2 1973

Mr. D. L. Scantlebury
Director, Division of Financial and
General Management Studies
General Accounting Office
Washington, D. C. 20548

Dear Mr. Scantlebury:

We appreciate the opportunity to review your draft report entitled "Increased Intergovernmental Cooperation Needed for More Effective, Less Costly Auditing of Government Programs."

I understand our staffs met and discussed various aspects of a previous draft. In addition to their observations, I have the following comments on the current draft.

(1)

As you know, the President, by Executive Order 11717, dated May 9, 1973, reassigned a number of Government-wide management responsibilities from the Office of Management and Budget to the General Services Administration. Among these responsibilities was the administration of the regulation now referred to as OMB Circular No. A-73, which your report discusses. We believe the report should be updated to reflect the reassignment of responsibilities to GSA.

In addition, we believe the report should give more recognition to some of the cross-servicing arrangements that have been worked out in conjunction with the Federal agencies over the last few years. For example, the Integrated Grant Administration (IGA) Program which is currently underway provides for one agency to be responsible for the audit of the IGA grantee. For over 2,000 educational institutions, a cognizant Federal agency was designated to conduct the audit for all agencies at a single institution. For State and local governments, similar arrangements were made for the audit of indirect costs under grant programs. As of now, individual agencies are cognizant for all States and about 450 State agencies and for about 1,000 of the larger counties, municipalities and townships. About 37,000 smaller units of local government were instructed to make arrangements for audit with the Federal agency with which they do the most business. All school districts, over 21,000, were assigned to the Department of Health, Education, and Welfare. Cognizance assignments were made also for over 6,700 special districts.

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GAO note: Executive Order 11717, dated May 9, 1973, transferred certain Government-wide management responsibilities, including cognizance over matters included in this report, from OMB to GSA.

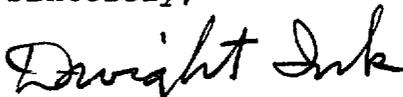
In view of the fact that agencies are using independent public accountants for audit work, we believe that some of the problems to be overcome deserve more discussion in the report, particularly since the use of independent public accountants is likely to expand.

With regard to the recommendation to OMB, we believe it should be changed. Although OMB will continue to have an active interest in audit matters through the budget process and through the Joint Financial Management Improvement Program, we believe the recommendation should be redirected to GSA to reflect the recent reassignment of responsibilities. Also, the recommendation should suggest that the present program of intergovernmental cooperation be pursued more vigorously. Present wording gives the impression that no program existed heretofore. We would also suggest eliminating the second sentence of the recommendation, which says that the particulars of a program for intergovernmental audit cooperation be spelled out in the revision of Circular No. A-73. While we are about to reissue and expand the coverage now provided by the Circular, we doubt that it would be appropriate to spell out in the revised document the details of the intergovernmental audit cooperation programs.

As you have forcefully brought out in the report, much work lies ahead in the improvement of audit operations. For our part, we strongly endorse initiatives for improved intergovernmental auditing and we are prepared to contribute to the maximum extent possible.

We would be glad to discuss this further if you so desire.

Sincerely,



Dwight A. Ink
Deputy Administrator.

GENERAL SERVICES ADMINISTRATION
OFFICE OF FEDERAL MANAGEMENT POLICY

FEDERAL MANAGEMENT CIRCULAR

FMC 73-2: Audit of Federal Operations and Programs
by Executive Branch Agencies

September 27, 1973

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

1. Purpose. This circular sets forth policies to be followed in the audit of Federal operations and programs by executive departments and establishments.
2. Supersession. This circular supersedes Office of Management and Budget Circular No. A-73, dated August 4, 1965.
3. Policy intent. The primary objectives of this circular are to promote improved audit practices, to achieve more efficient use of manpower, to improve coordination of audit efforts, and to emphasize the need for early audits of new or substantially changed programs.
4. Applicability and scope. The provisions of this circular are applicable to all executive departments and establishments. The terms "agency" and "Federal agency" throughout this circular are synonymous with the term "departments and establishments" as defined in FMC 73-1.
5. Definitions.
 - a. The term "audit" as used in this circular means a systematic review or appraisal to determine and report on whether:
 - (1) Financial operations are properly conducted;
 - (2) Financial reports are presented fairly;
 - (3) Applicable laws and regulations have been complied with;

(4) Resources are managed and used in an economical and efficient manner; and

(5) Desired results and objectives are being achieved in an effective manner.

The above elements of an audit are most commonly referred to as financial/compliance (items 1, 2, and 3), economy/efficiency (item 4), and program results (item 5). Collectively, they represent the full scope of an audit and provide the greatest benefit to all potential users of Government audits. In developing audit plans, however, the audit scope should be tailored to each specific program according to the circumstances relating to the program, the management needs to be met, and the capacity of the audit facilities.

b. The term "audit standards" refers to those standards set forth in the Standards for Audit of Governmental Organizations, Programs, Activities & Functions issued by the Comptroller General of the United States.

6. Policies and procedures. Agencies are responsible for providing adequate audit coverage of their programs as a constructive aid in determining whether funds have been applied efficiently, economically, effectively, and in a manner that is consistent with related laws, program objectives, and underlying agreements. The audit standards will be the basic criteria on which audit coverage and operations are based. Agencies administering Federal grant, contract, and loan programs will encourage the appropriate application of these standards by non-Federal audit staffs involved in the audit of organizations administering Federal programs. Each agency will implement the policies set forth in this circular by issuing policies, plans, and procedures for the guidance of its auditors.

a. Organization and staffing. Audit services in Government are an integral part of the management process. Audit services and reports must be responsive to management needs. However, it is important in order to obtain the maximum benefit from this function that agency audit organizations have a sufficient degree of independence in carrying out their responsibilities. To provide an appropriate degree of independence, the audit organization should ordinarily be located outside the program management structure, report

APPENDIX IV

to an agency management level sufficiently high to ensure proper consideration of and action on audit results, and be given reasonable latitude in selecting and carrying out assignments. Adequate and qualified staff should be assigned this important function. The audit of all programs under a single Federal department or agency must be coordinated, and where economies and a more effective audit service will result, especially in large and geographically dispersed programs, the audit operations within a department should be consolidated. It is also important to establish close coordination between audit and such other management review activities as may exist in an agency.

b. Determination of audit priorities. Each agency will establish procedures requiring periodic review of its individual programs and operations to determine the coverage, frequency, and priority of audit required for each. The review will include consideration of the following factors:

- (1) Newness, changed conditions, or sensitivity of the organization, program, activity, or function;
- (2) Its dollar magnitude and duration;
- (3) Extent of Federal participation either in terms of resources or regulatory authority;
- (4) Management needs to be met, as developed in consultation with the responsible program officials;
- (5) Prior audit experience, including the adequacy of the financial management system and controls;
- (6) Timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants;
- (7) Results of other evaluations; e.g., inspections, program reviews, etc.;
- (8) Mandatory requirements of legislation or other congressional recommendations; and
- (9) Availability of audit resources.

c. Cross-servicing arrangements. To conserve manpower, promote efficiency, and minimize the impact of audits on the operations of the organizations subject to audit, each Federal agency will give full consideration to establishing cross-servicing arrangements under which one Federal agency will conduct audits for another--whenever such arrangements are in the best interest of the Federal Government and the organization being audited. This is particularly applicable in the Federal grant-in-aid and contract programs where two or more Federal agencies are frequently responsible for programs in the same organization or in offices located within the same geographical area. Under such circumstances, it will be the primary responsibility of the Federal agency with the predominant financial interest to take the initiative in collaborating with the other appropriate Federal agencies to determine the feasibility of one of the agencies' conducting audits for the others, and to work out mutually agreeable arrangements for carrying out the required audits on the most efficient basis.

d. Reliance on non-Federal audits. In developing audit plans, Federal agencies administering programs in partnership with organizations outside of the Federal Government will consider whether these organizations require periodic audits and whether the organizations have made or arranged for these audits. This consideration is especially necessary for those agencies that administer Federal grant-in-aid programs through State and local governments and which are subject to OMB Circular A-102, Attachment G. Attachment G provides standards for financial management systems of grant-supported activities of State and local governments and requires that such systems provide, at a minimum, for financial/compliance audits at least once every 2 years. Federal agencies will coordinate their audit requirements and approaches with these organizations to the maximum extent possible. The scope of individual Federal audits will give full recognition to the non-Federal audit effort. Reports prepared by non-Federal auditors will be used in lieu of Federal audits if the reports and supporting workpapers are available for review by the Federal agencies, if testing by Federal agencies indicates the audits are performed in accordance with generally accepted auditing standards (including the audit standards issued by the Comptroller General), and if the audits otherwise meet the requirements of the Federal agencies.

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e. Audit plans. Based on the considerations set forth in b, c, and d, above, each agency will prepare an audit plan at least annually. At a minimum, such plans will reflect the:

(1) Audit universe (all programs and operations subject to audit);

(2) Programs and operations selected for audit, with priorities and specific reasons for selection;

(3) Audit organization that will conduct the audit;

(4) Audit cycle or frequency, the locations to be audited, and the reasons therefor;

(5) Scope of audit coverage to be provided and the reasons therefor; and

(6) Anticipated benefits to be obtained from the audits.

The plans should be adjusted as necessary to provide for audit coverage of unforeseen priorities.

f. Coordination of audit work. Federal agencies will coordinate and cooperate with each other in developing and carrying out their individual audit plans. Such actions will include continuous liaison; the exchange of audit techniques, objectives, and plans; and the development of audit schedules to minimize the amount of audit effort required. Federal agencies will encourage similar coordination and cooperation among Federal and non-Federal audit staffs where there is a common interest in the programs subject to audit.

g. Reports. Reporting standards are set forth in the Audit Standards for the guidance of Federal agencies. With respect to release of audit reports, each agency will establish policies regarding the release of audit reports outside the agency. Such policies will be in consonance with applicable laws, including the Freedom of Information Act, and, to the maximum extent possible, will provide for the dissemination of such reports in whole or in part to those interested in such information.

h. Agency action on audit reports. Each agency will provide policies for acting on audit recommendations. Timely action on recommendations by responsible management officials is an integral part of the effectiveness of an agency's audit system and has a direct bearing on it. Policies will provide for designating officials responsible for following up on audit recommendations, maintaining a record of the action taken on recommendations and time schedules for responding to and acting on audit recommendations, and submitting periodic reports to agency management on recommendations and action taken.

7. Responsibilities. Federal agencies will review the policies and practices currently followed in the audit of their operations and programs, and will initiate such action as is necessary to comply with the policies set forth in this circular. The head of each Federal agency will designate an official to serve as the agency representative on matters relating to the implementation of this circular. The name of the agency representative should be sent to the General Services Administration (AM), Washington, DC 20405, within 30 days after the receipt of this circular.

8. Reporting requirement. Each Federal agency will submit a report to the General Services Administration (AM), Washington, DC 20405, by December 31, 1973, on the action it has taken to implement the policies set forth in this circular. Specifically, the report will include actions taken on the issuance of policies, plans, and procedures for the guidance of its auditors; determination of audit priorities; new cross-servicing arrangements made; additional reliance on non-Federal audits; development of audit plans; and coordination of audit work between Federal agencies and between Federal and non-Federal audit staffs. Reports will be submitted at 6-month intervals on the additional actions taken until the circular is fully implemented. Copies of agency issuances on the implementation of this circular will be submitted to the Office of Federal Management Policy, General Services Administration, upon request.

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9. Inquiries. Further information concerning this circular may be obtained by contacting:

General Services Administration (AMF)
Washington, DC 20405

Telephone: IDS 183-7747
 FTS 202-343-7747



ARTHUR F. SAMPSON
Administrator of General Services

PRINCIPAL OFFICIALS
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>OFFICE OF MANAGEMENT AND BUDGET (note a)</u>		
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET:		
Roy L. Ash	Feb. 1973	Present
Caspar W. Weinberger	June 1972	Feb. 1973
George P. Shultz	July 1970	June 1972
DIRECTOR, BUREAU OF THE BUDGET:		
Robert P. Mayo	Jan. 1969	June 1970
Charles J. Zwick	Jan. 1968	Jan. 1969
Charles L. Schultze	June 1965	Jan. 1968
ASSISTANT DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET:		
Dwight A. Ink	Feb. 1969	May 1973

GENERAL SERVICES ADMINISTRATION

ADMINISTRATOR OF GENERAL SERVICES:		
Arthur F. Sampson	June 1973	Present
Arthur F. Sampson (acting)	June 1972	June 1973
DEPUTY DIRECTOR:		
Dwight A. Ink	May 1973	Present

^a Under the President's Reorganization Plan No. 2, effective July 1, 1970, the Bureau of the Budget was incorporated into the newly established OMB.

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